

FISCAL NOTE
SB 1371 - HB 1650

April 7, 2003

SUMMARY OF BILL:

- Creates a state formulary committee within the Department of Health to make recommendations regarding a preferred drug list (PDL) to govern all state purchases of prescription medicine. The 13 committee members would be appointed to staggered three year terms with nine members appointed by the Governor and two each by the Speakers of the House and Senate. The committee would recommend drug classes for inclusion on the state PDL to the state executive formulary committee by August 1, 2003.
- Creates the executive formulary committee consisting of the Commissioners of Finance and Administration, Health; the TennCare Bureau Director and the chair and vice chair of the formulary committee. The executive committee would create the state PDL applying to all pharmacy purchases within the TennCare program, state group insurance programs, the TennCare Rx program, and other pharmacy purchases designated by the Department of Finance and Administration.
- Requires the Department of Finance and Administration to contract with a pharmacy benefit manager (PBM) to administer prescription drug programs for Tennessee. The PBM would:
 - Provide information for developing a PDL and on utilization patterns.
 - Maintain a retail pharmacy network to provide prescription drugs through state programs.
 - Set pharmacy reimbursement rates and dispense fee schedules and establish maximum allowable costs (MAC) prices for drugs available in generic form.
 - Provide information to the University of Tennessee College of Pharmacy to advise the committee.
- Requires the Bureau of TennCare to
 - Remove pharmacy services from managed care organization contracts and assume direct responsibility.
 - Implement tiered co-payments, prior authorization, and step therapy requirements based on the PDL.
 - If necessary, seek a research and demonstration waiver from the federal government for the creation of a TennCare Rx program.
- Requires the Department of Finance and Administration to
 - Remove pharmacy services from state contracts and assume direct responsibility for all pharmacy purchases within state employee plans.
 - Hire a pharmacy director to administer the pharmacy benefit for state insurance programs in association with the state PBM.
 - Create a program where local entities, including county jails, could purchase prescription drugs through the state network.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - Exceeds \$1,000,000

Increase State Revenues - Exceeds \$10,000,000

Decrease State Expenditures - Exceeds \$50,000,000

Decrease Local Govt. Expenditures - Exceeds \$1,000,000

Other Fiscal Impact - Decrease Federal Expenditures - Exceeds \$100,000,000

Assumes:

- An increase in expenditures to contract with a pharmacy benefits manager and hire a pharmacy director.
- An increase in expenditures in the Department of Health for administration of the state formulary committee.
- An increase in state revenues from increased drug rebates from pharmaceutical manufacturers.
- A decrease in drug expenditures in the TennCare program, state and local health plans because of greater discounts and decreased utilization due to greater controls in a PBM arrangement.
- A decrease in the cap rate paid to MCOs by the TennCare program to reflect the carve out of all drug expenditures.
- A decrease in administrative costs in the state and local health plans to reflect the shift from the current contractor to a PBM.
- A decrease in local government expenditures reflecting savings in drug costs in local health insurance expenditures and other drug purchasing for jails, hospitals and nursing homes.

The total net decrease in state and Federal expenditures will depend upon the ability of a pharmacy benefits manager to control drug utilization, reduce drug costs and increase manufacturer rebates through a consolidated drug purchasing program. The Comptroller of the Treasury estimated state savings exceeding \$65,000,000. According to the Bureau of TennCare, they have estimated savings of \$150,000,000 in FY03-04 based upon implementation of a preferred drug list.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director